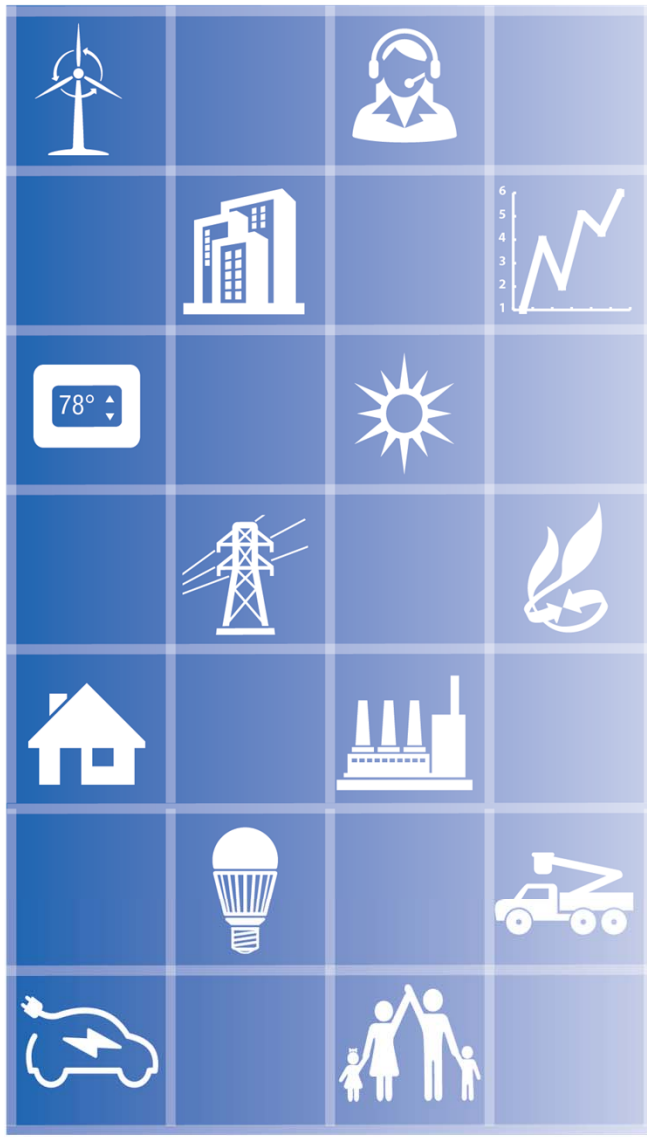


First Year Under New Rates and Cash Reserve Policy Review

Ann Little, CFO

Council Committee on Austin Energy

April 3, 2014

Council Committee on Austin Energy
April 3, 2014

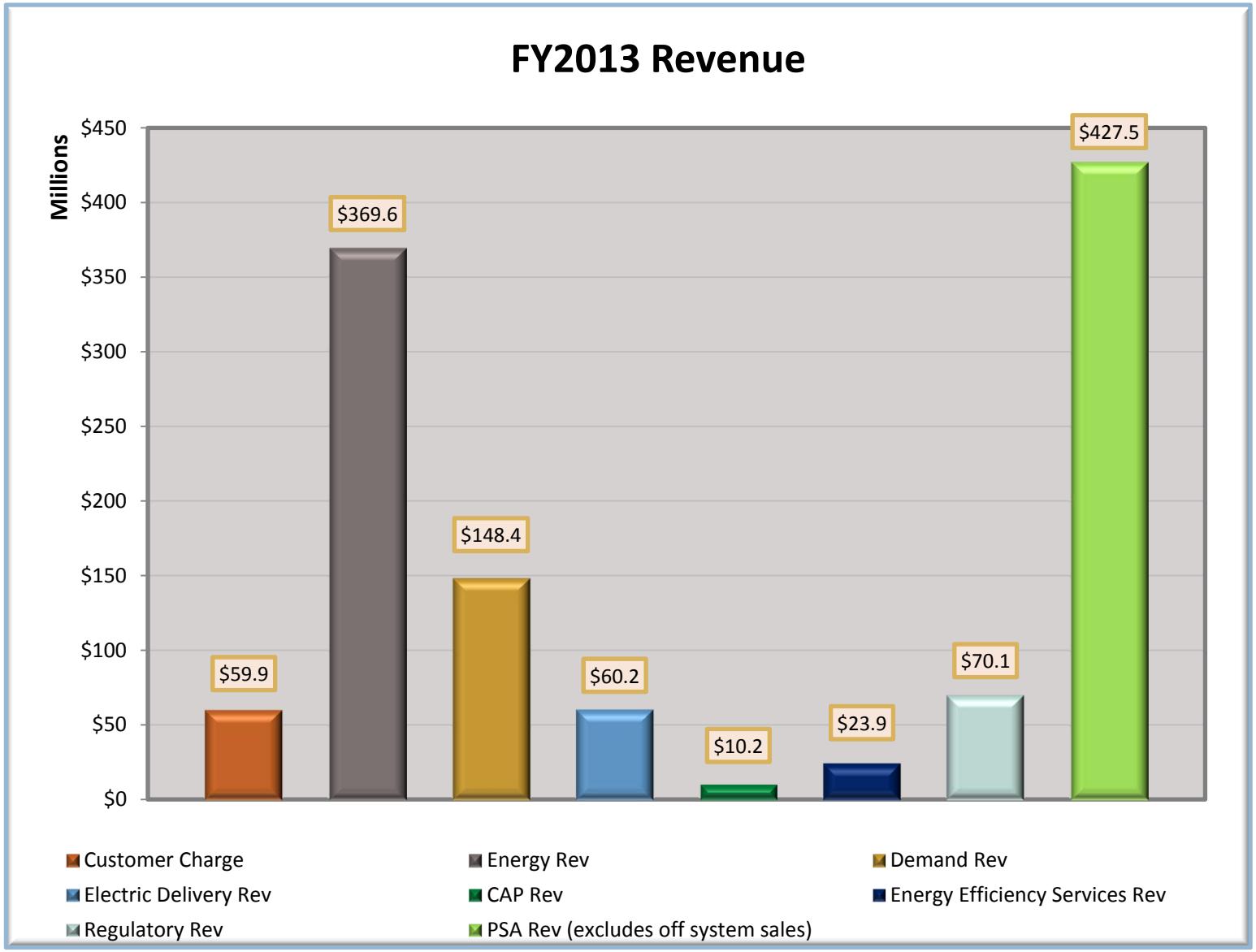
i. Quarterly Report
ii. First Year Results Under New Rates
iii. Cash Reserves and Policy Review
iv. Role of Advisory Boards

FY 2013-1st Year of New Rates

Agenda Item: Financial Update-Emphasis on assessing the first year results under new rates

- **Rates approved June 7, 2012**
- **Implemented October 1, 2012**
  - **Re-assigned customers to new class and new rates**
  - **Moved from 90 rates to ~ 40 rates**
  - **Moved from 24 classes to ~ 9 classes**
  - **Increased residential tiers**
  - **All commercial customers with demand of 10 kW and greater pay demand charges**
  - **Developed Community Benefit Charge (CBC)**
- **Outside COA rates implemented June 1, 2013 (settlement from appealed case)**
  - **Added additional rate schedules**

Electric Rate Revenue by Category

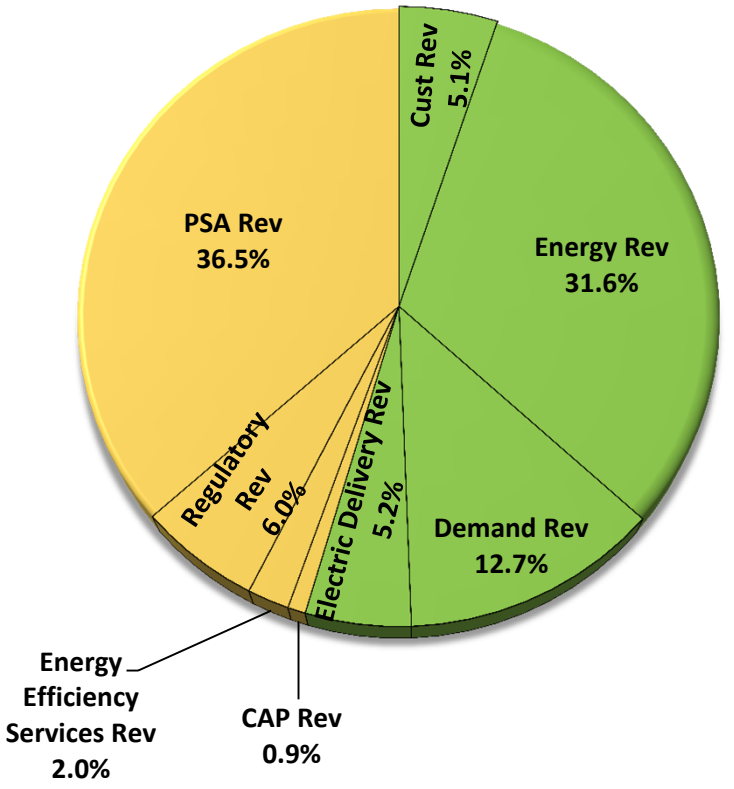


45% of Rates are Adjustable

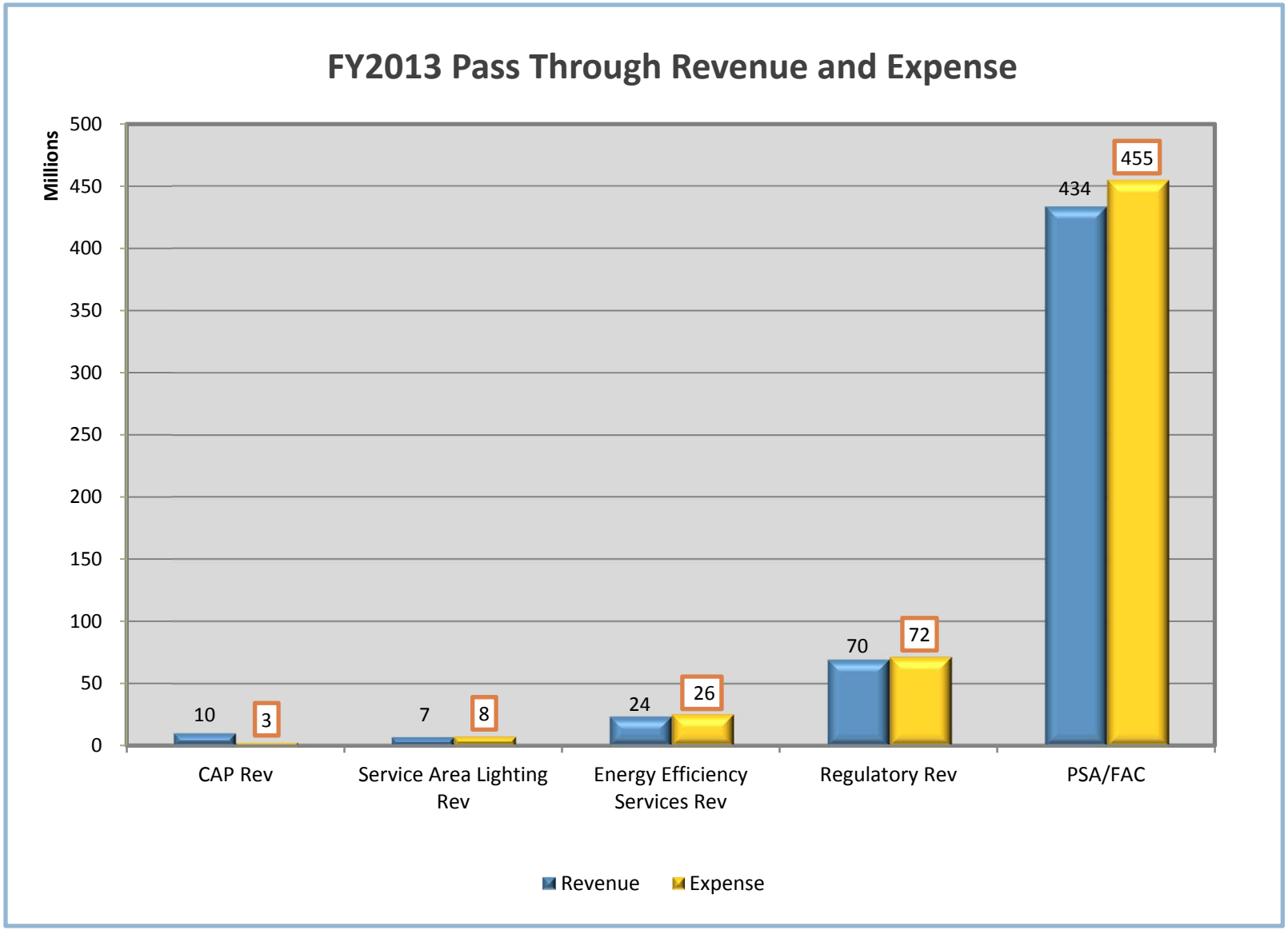
AE retail revenue includes:

Customer Charge	$59.9M
Energy Charge	$369.6M
Demand Charge	$148.4M
Electric Delivery Charge	$60.2M
PSA Revenue	$427.5M
Regulatory Charge	$70.1M
Community Benefit Charge	$34.1M

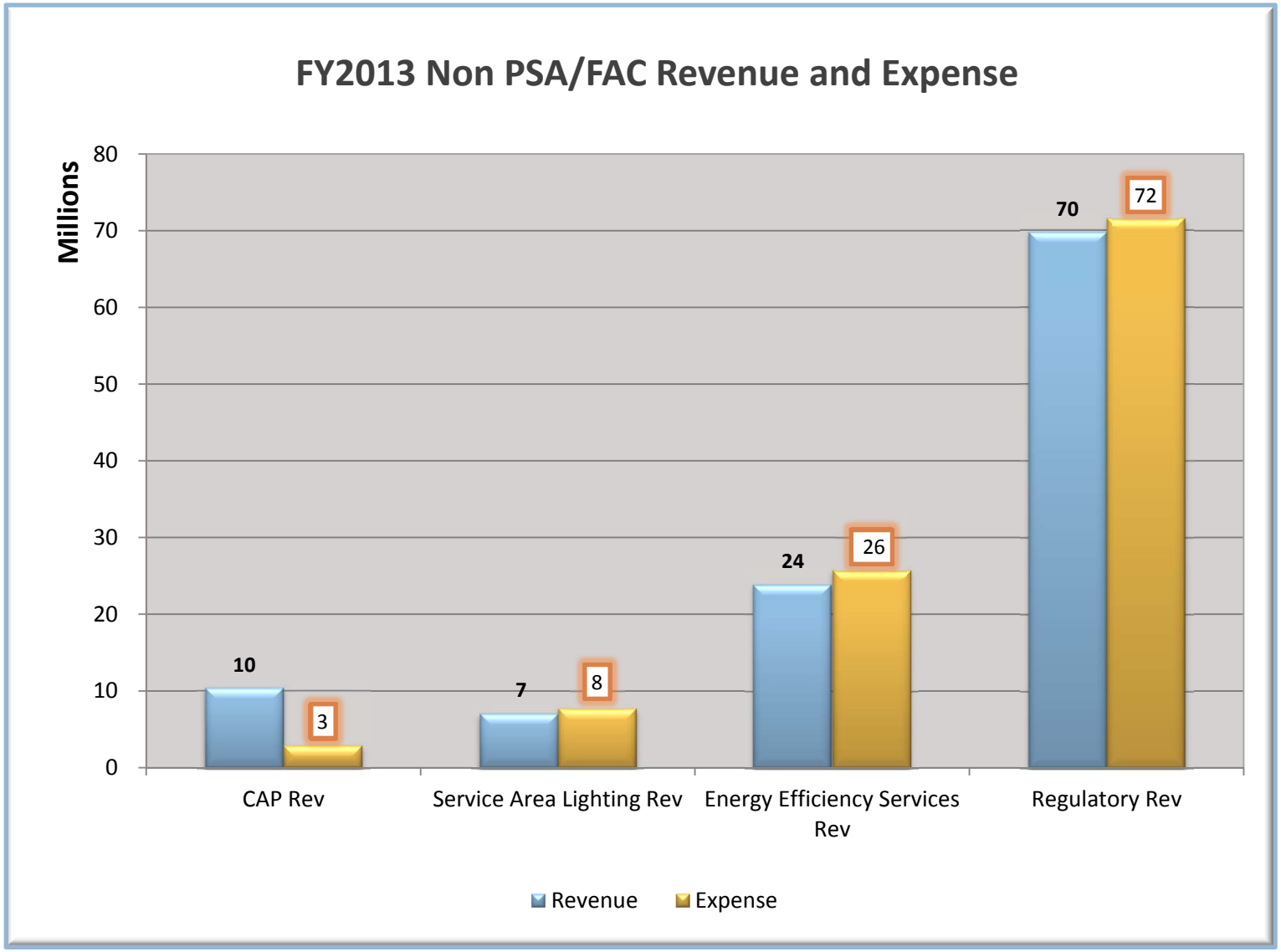
FY2013 Retail Revenue
$1,169.8M



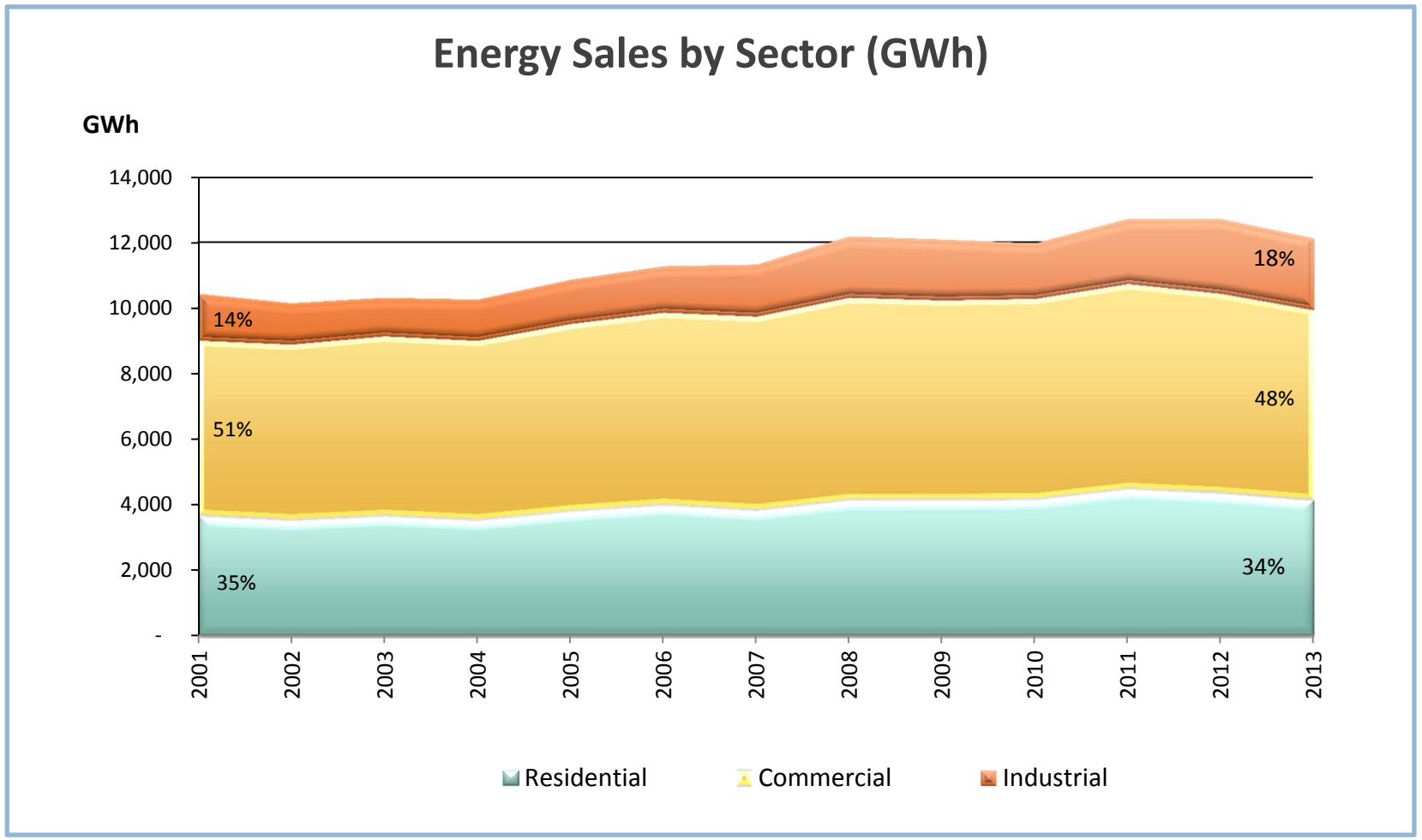
Revenue from Adjustable Rates



Non PSA Revenue from Adjustable Rates

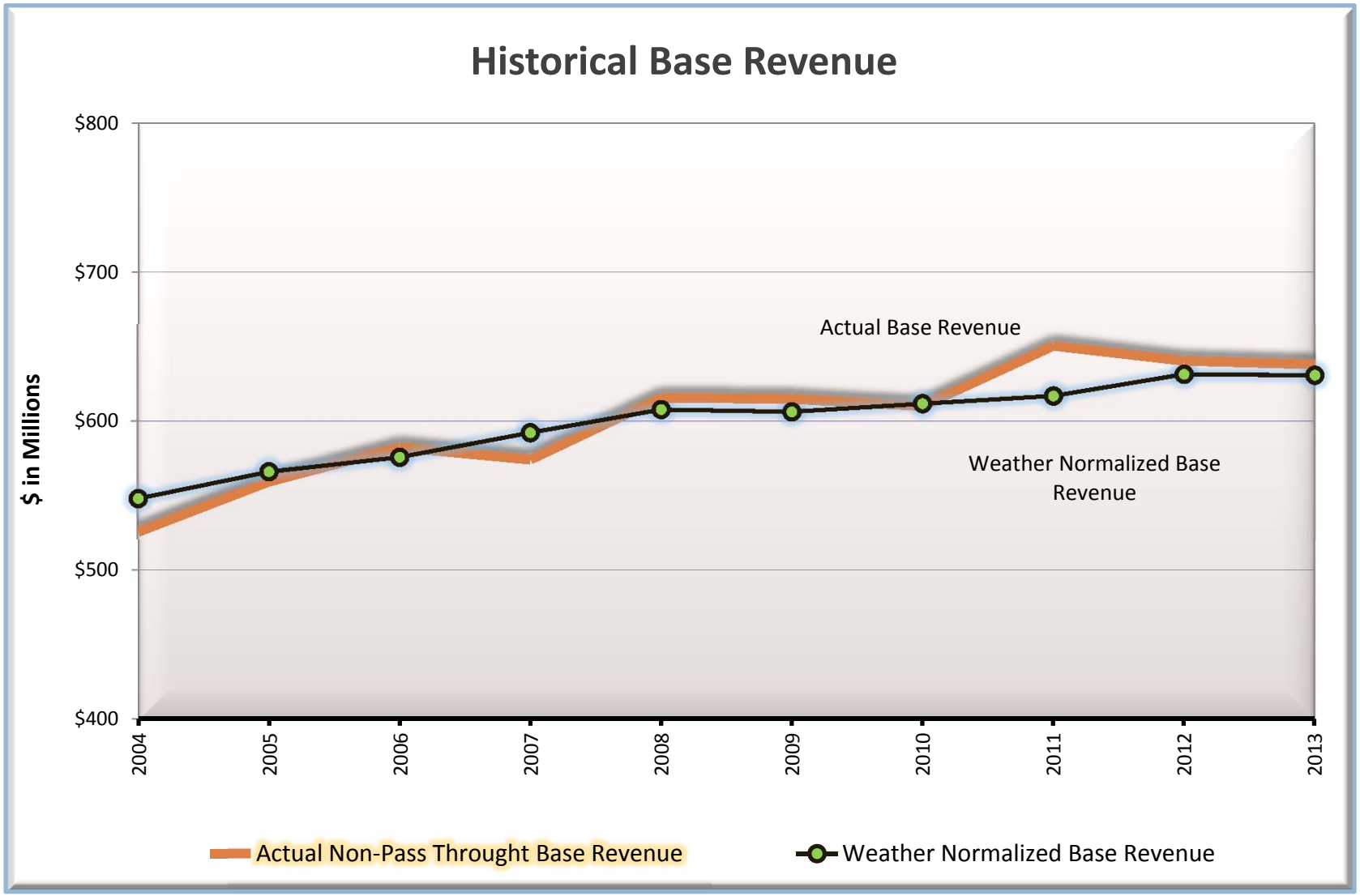


Growth Helps Stabilize Rates

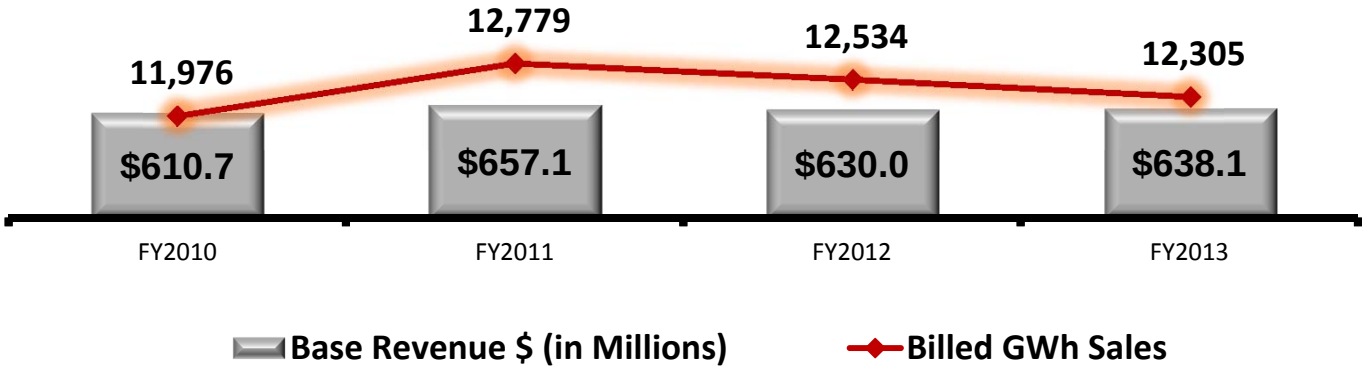


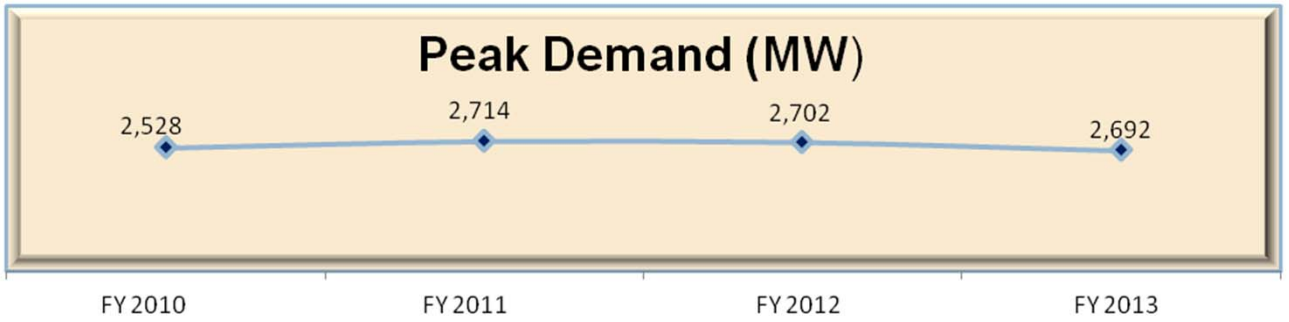
CAGR	Residential	Commercial	Industrial
2001-2013	1.0%	0.9%	3.6%

Base Revenue History

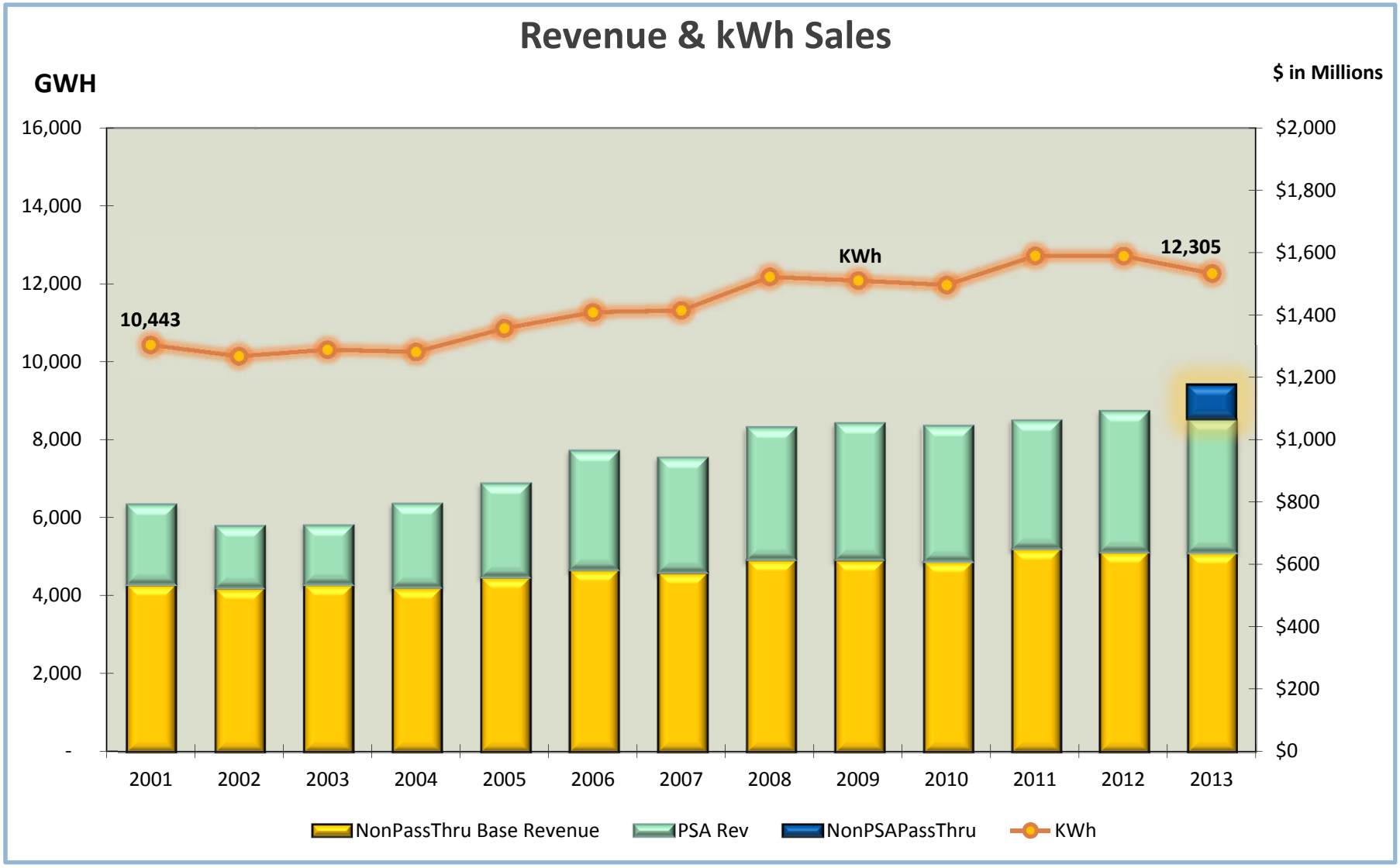


Revenue and kWh Trend





Revenue & KWh Sales History



Evaluation of New Rates

Impact on Stakeholders' Perspectives

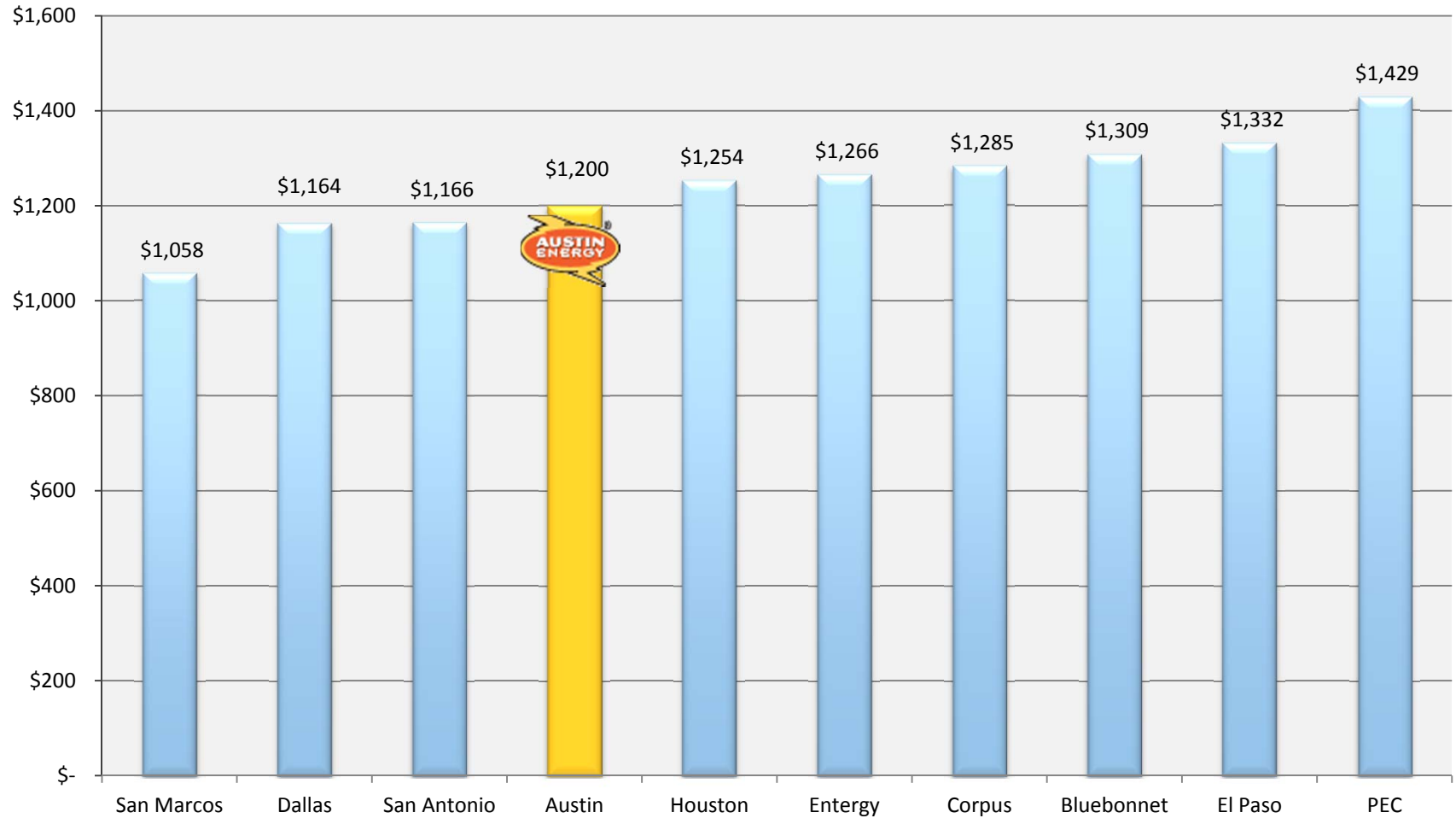
- Customers
- City of Austin and Service Area
- Austin Energy

Customer Perspective

- **Rates at Cost of Service**
  - Future rate changes expected to be limited and timely
- **Reflect support for customers in need of assistance:**
  - Residential Customer Assistance Program
  - ISD school accounts 10% discount
  - Worship facilities received bill cap
- **Customers have optional rates:**
  - Solar
  - GreenChoice®
  - Time-of-use
  - Thermal Energy Storage
- **Rates are meeting affordability goals**

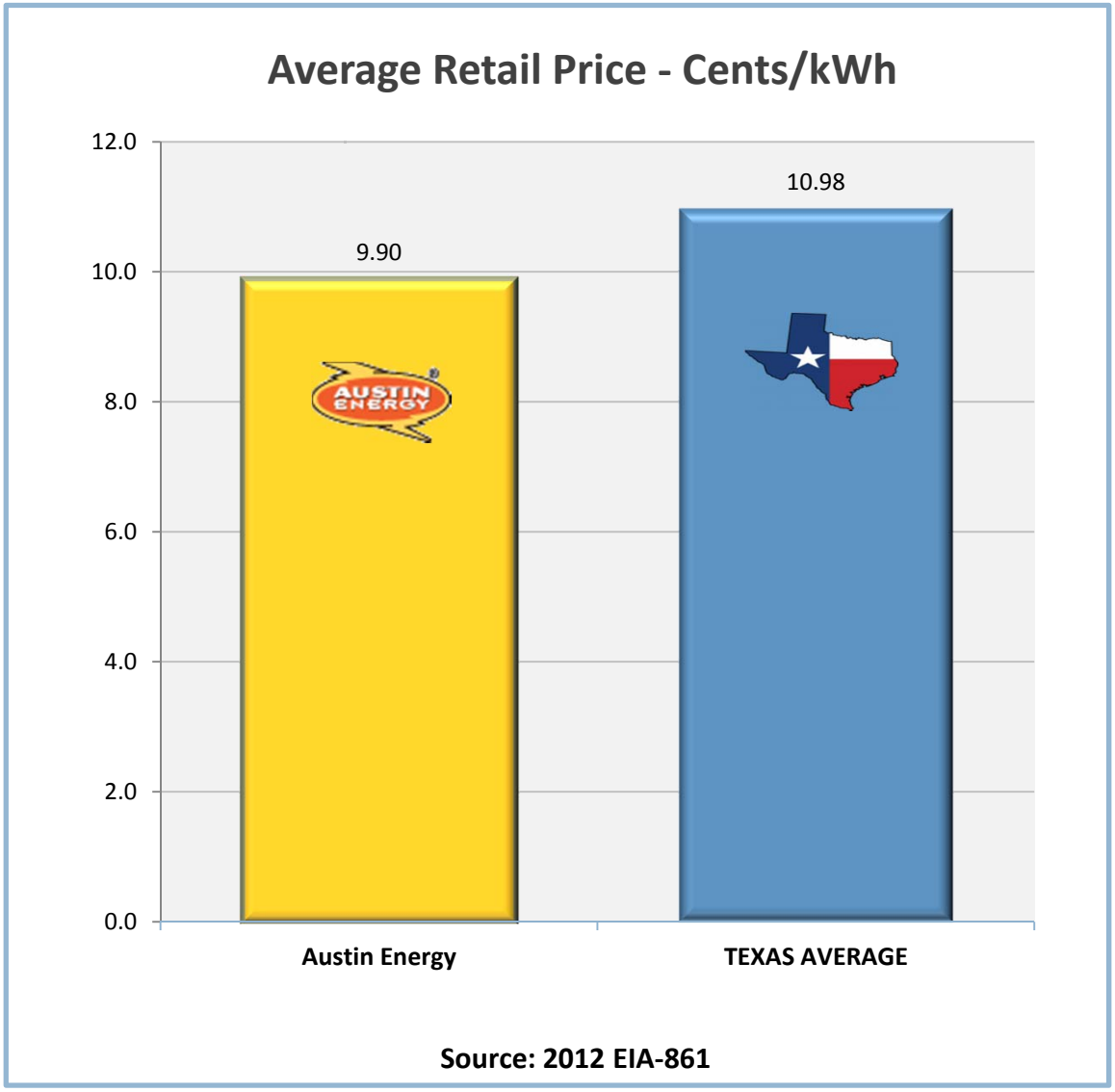
Residential Comparison

Residential Electric Bills At 1,000 kWh Oct 2012 - Sep 2013



Sources: PUC Electric Utility Bill Comparison, Power To Choose

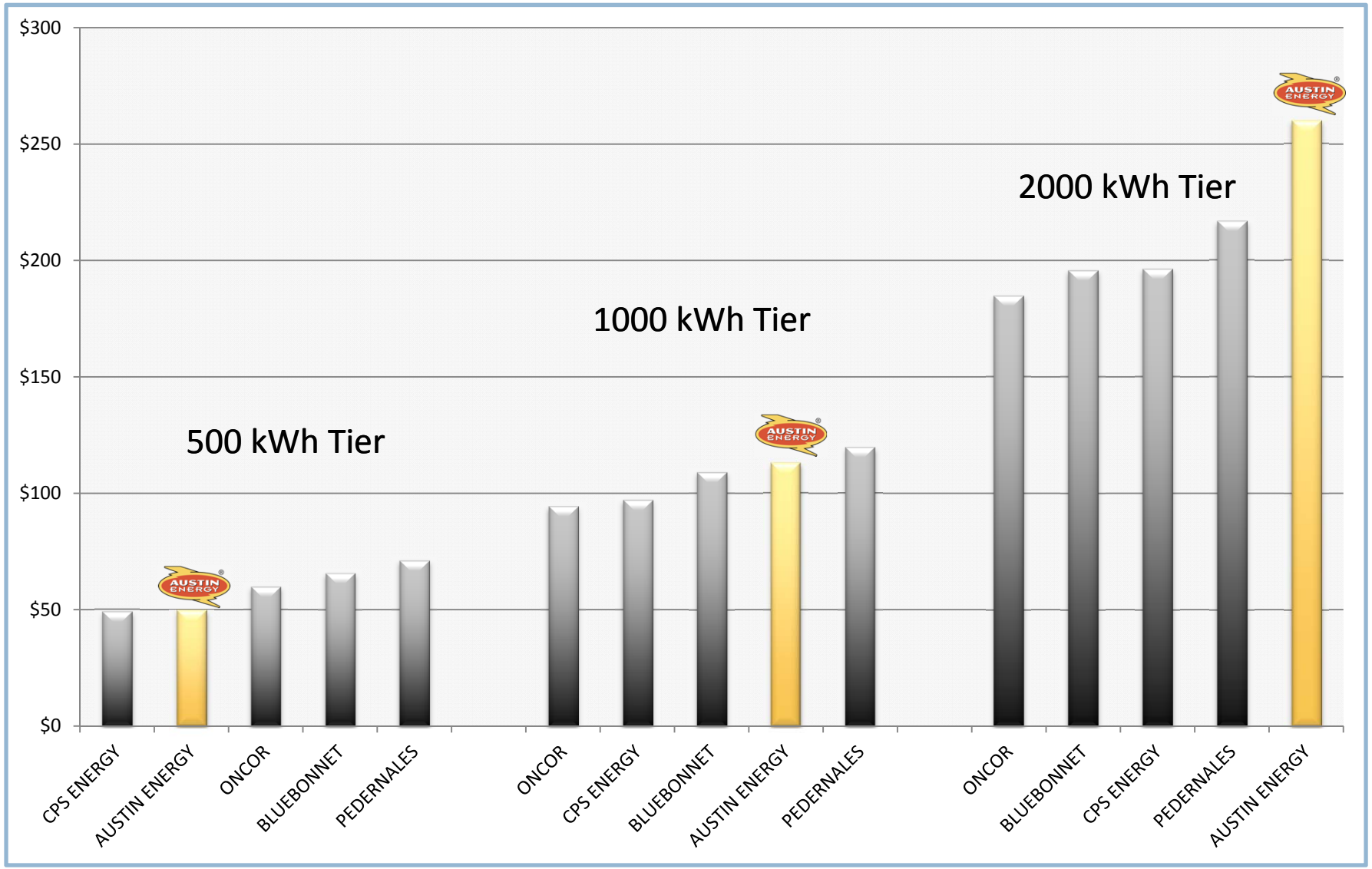
Residential Rate Comparison



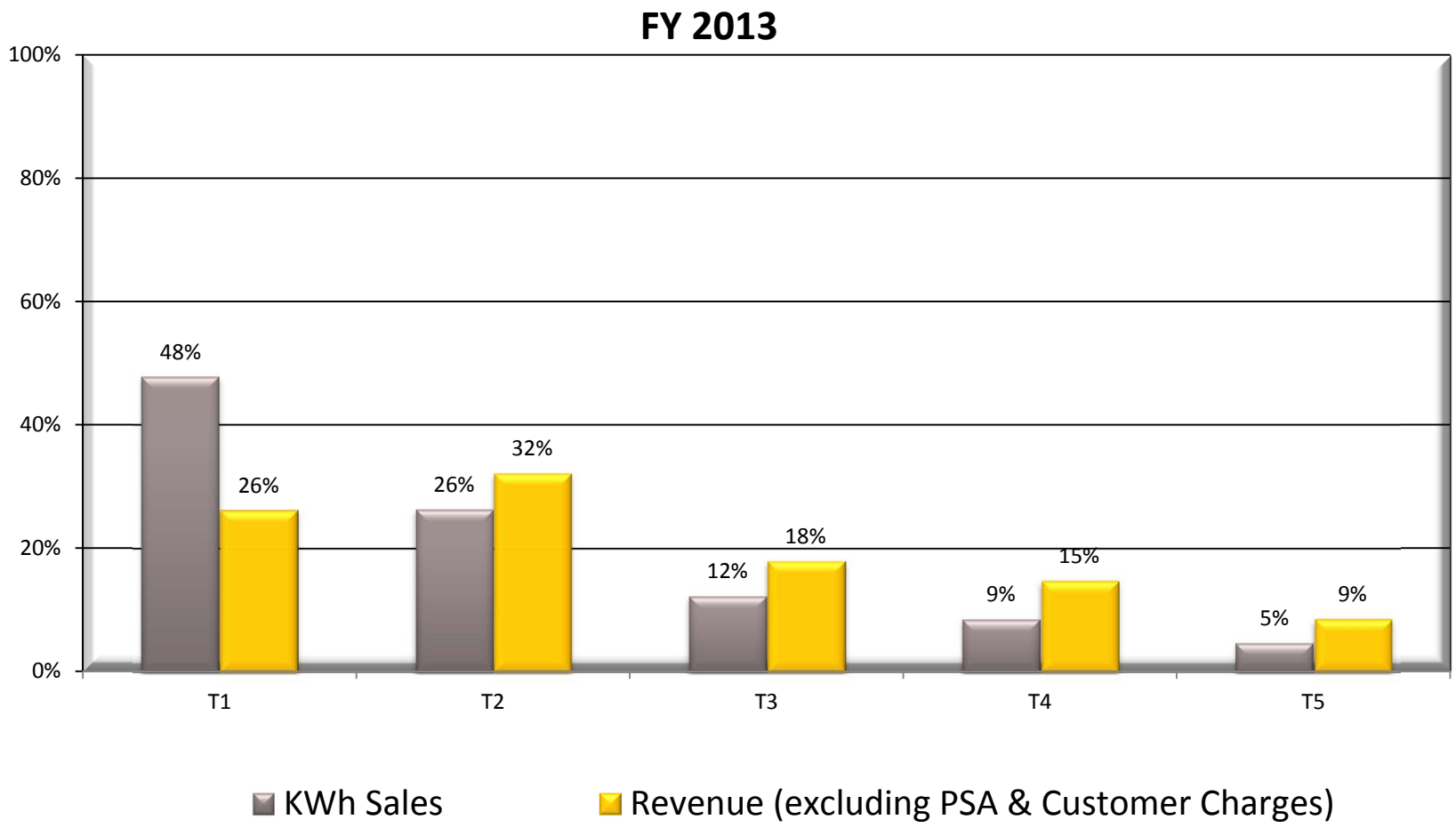
Source: 2012 EIA-861

Residential Comparison-Sept. 2013

AE sends strong pricing signals to conserve



Residential Tier Distribution



Service Area Perspective

- Environmental focus on energy efficiency, solar & renewable energy
  - Rates designed with pricing signals to conserve
  - Renewable energy blended with traditional generation sources is default rate for all customers
  - Continue to provide generous rebates
- City of Austin (COA)
  - Recover Economic Development cost
  - Recover Streetlight cost
  - General Fund Transfer
- Outside COA customers
  - Receive discount
  - Pay cost of appeal
  - Streetlights paid by cities not customers

Austin Energy Perspective

Preliminary FY 2013 Results

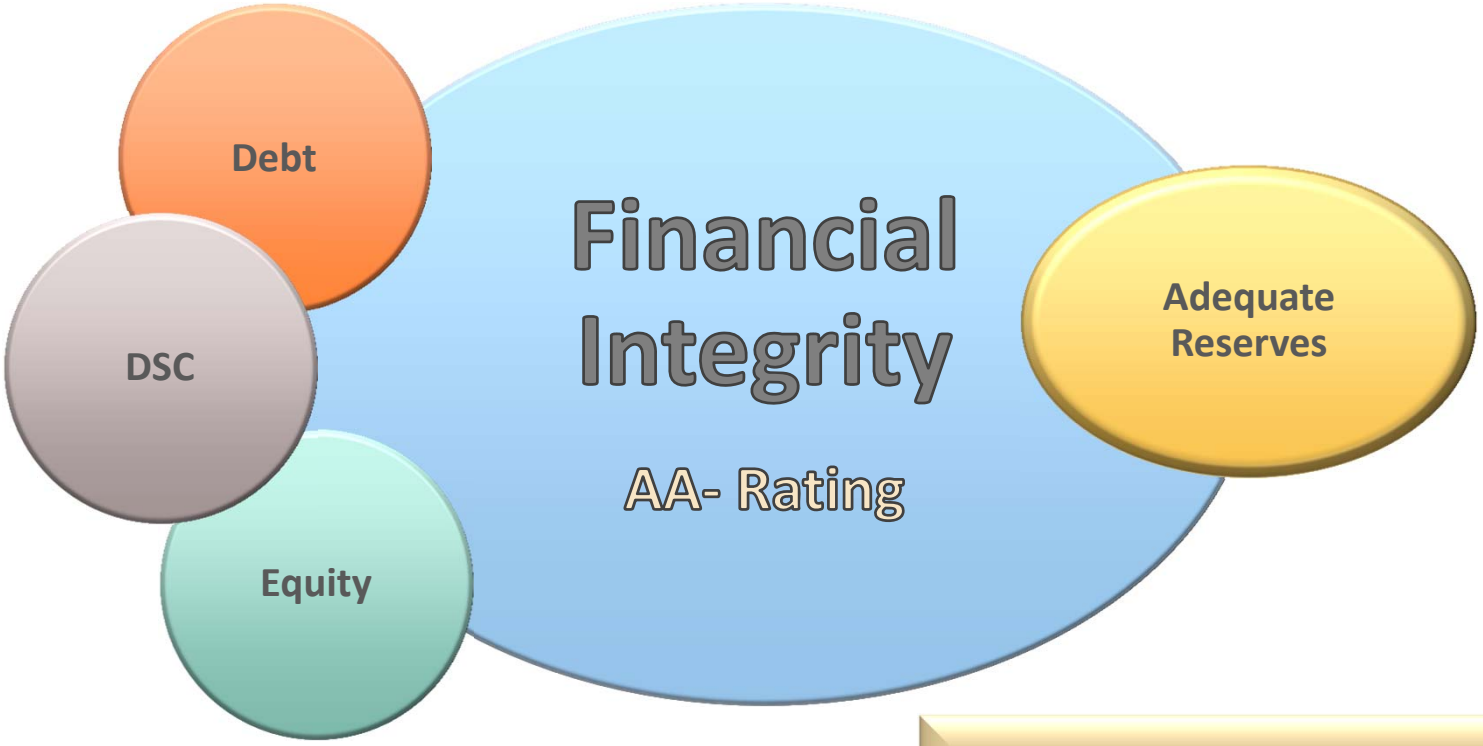
**Includes Mark-to-market Adjustment*

FY 2013 Net Income

Net Income is only recovered in Base Rates and must pay for:

Debt Service & Cash Portion CIP	• Principal payments in compliance with Bond Coverage Requirements
Contributions to Reserves	• Coverage for non-typical items, emergencies and rate stabilization
Decommissioning Reserves	• Mitigate future rate increases when power plants are closed
General Fund Transfer	• 12% of non-fuel revenues annually

Financial Health Criteria



- FY 2013 (unaudited)
- Debt/Equity Ratio = 47%
- Debt = $1,463,185,474
- Equity = $1,663,641,343
- Debt Service Coverage (DSC) = 2.07

Adequate Reserves balance the equation by reducing risk and providing credit support

CASH RESERVES

Sand Hill Energy Center

Financial Policy Boundaries

Reserves

for Non-Typical Events

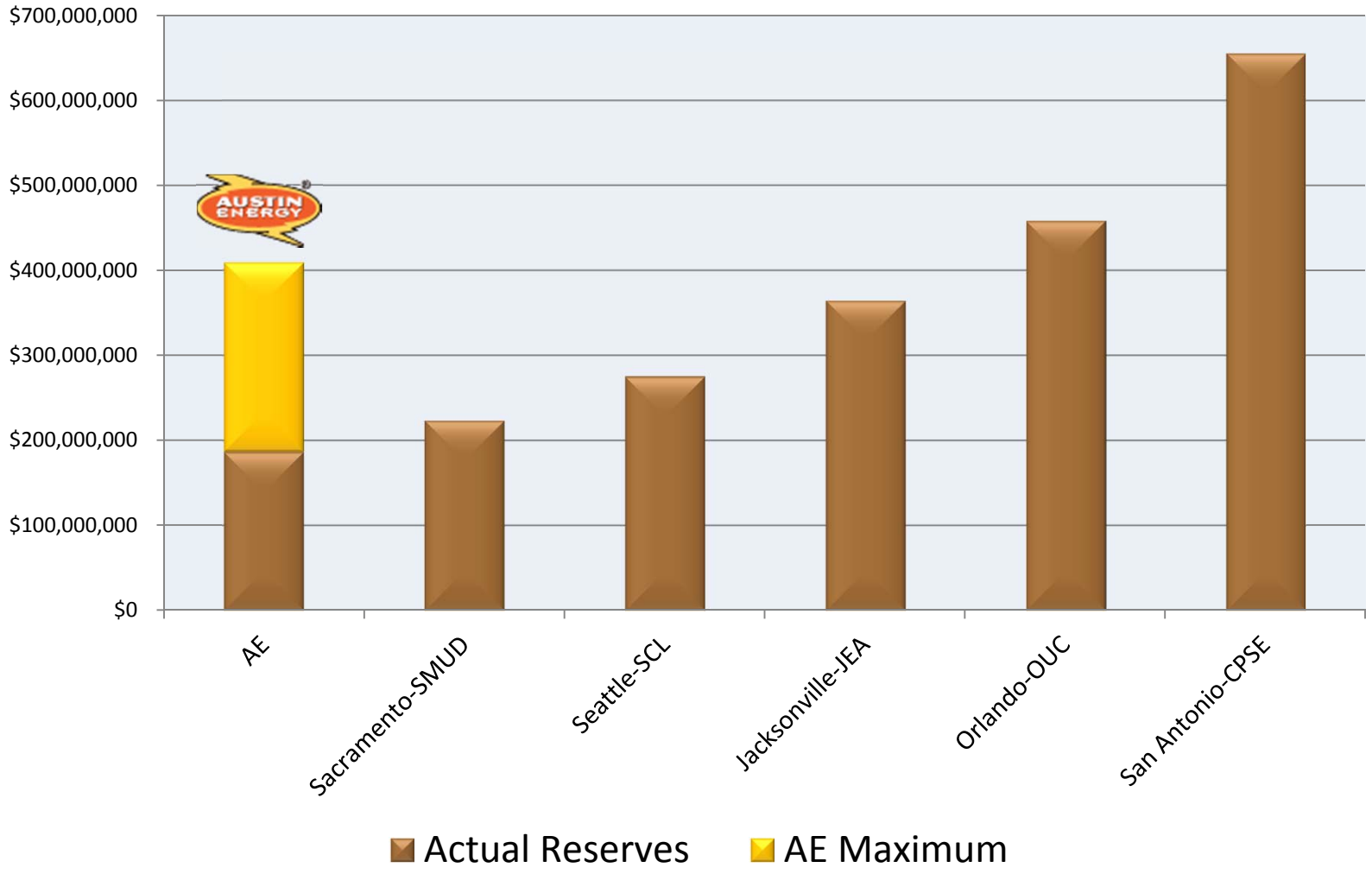
- **Repair & Replacement Reserve**
- **Strategic Reserve:**
  - *Emergency*
  - *Contingency*
  - *Rate Stabilization*
- **Decommissioning Reserve**

Maximum

for Non-Typical Events

- **½ of Depreciation Expense**
- **Strategic Reserve:**
  - *Min/Max-60 days of O&M less Fuel*
  - *Min/Max-60 days of O&M less Fuel*
  - *90 days of Power Supply Cost*
- **Power Plant Retirement Cost**

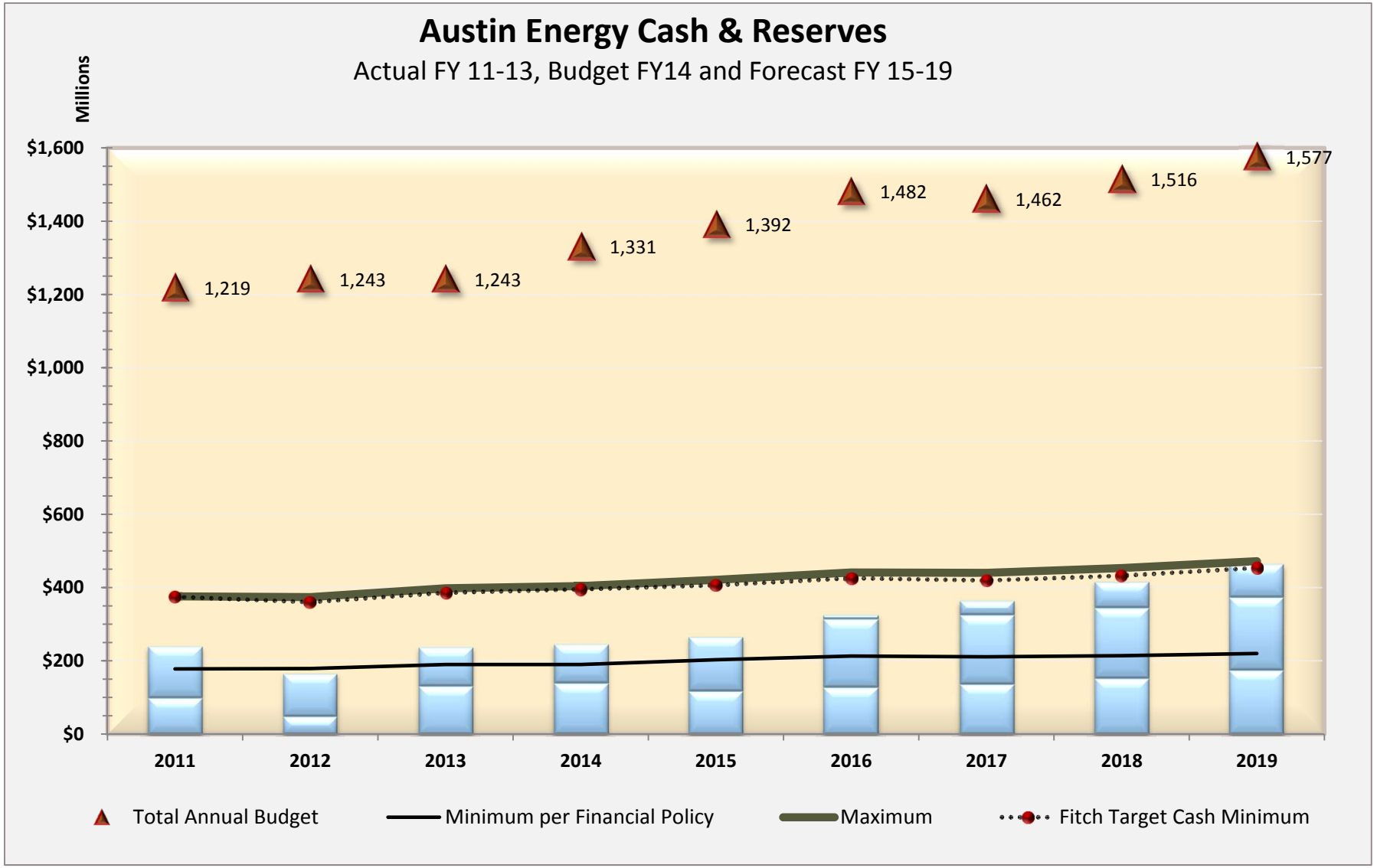
2012 Cash/Reserve Comparison



FY 2013 Cash Reserve Analysis

Reserve Name	Basis for Level of Funding	$ in Millions	
		September 2013	*Targets*
Working Capital (Operating Cash)	Minimum requirement - 45 days of O&M less fuel & purchased power	**$ 124**	**$ 60**
Strategic Reserve:			
Emergency	Minimum requirement -60 days of O&M less fuel & purchased power	**79**	**79**
Contingency	Minimum requirement- 60 days of O&M less fuel & purchased power	**27**	**79**
Rate Stabilization	Maximum balance-90 days of power supply costs	**0**	**112**
Total Strategic Reserve	Total of 3 components above (includes Mark-to-market adjustment)	**106**	**270**
Repair and Replacement	Maximum balance-1/2 of annual depreciation expense	**0**	**75**
Non-Nuclear Decommissioning Reserve		**0**	**56**
Total		**$ 230**	**$ 461**

Cash and Reserves Forecast



Necessity of Adequate Reserves

Since utilities have an obligation to serve, they cannot sit out adverse market conditions and wait for a more favorable economic environment. They have to have the flexibility to serve under any condition.

Cash Reserves provide flexibility and mitigate risk by:

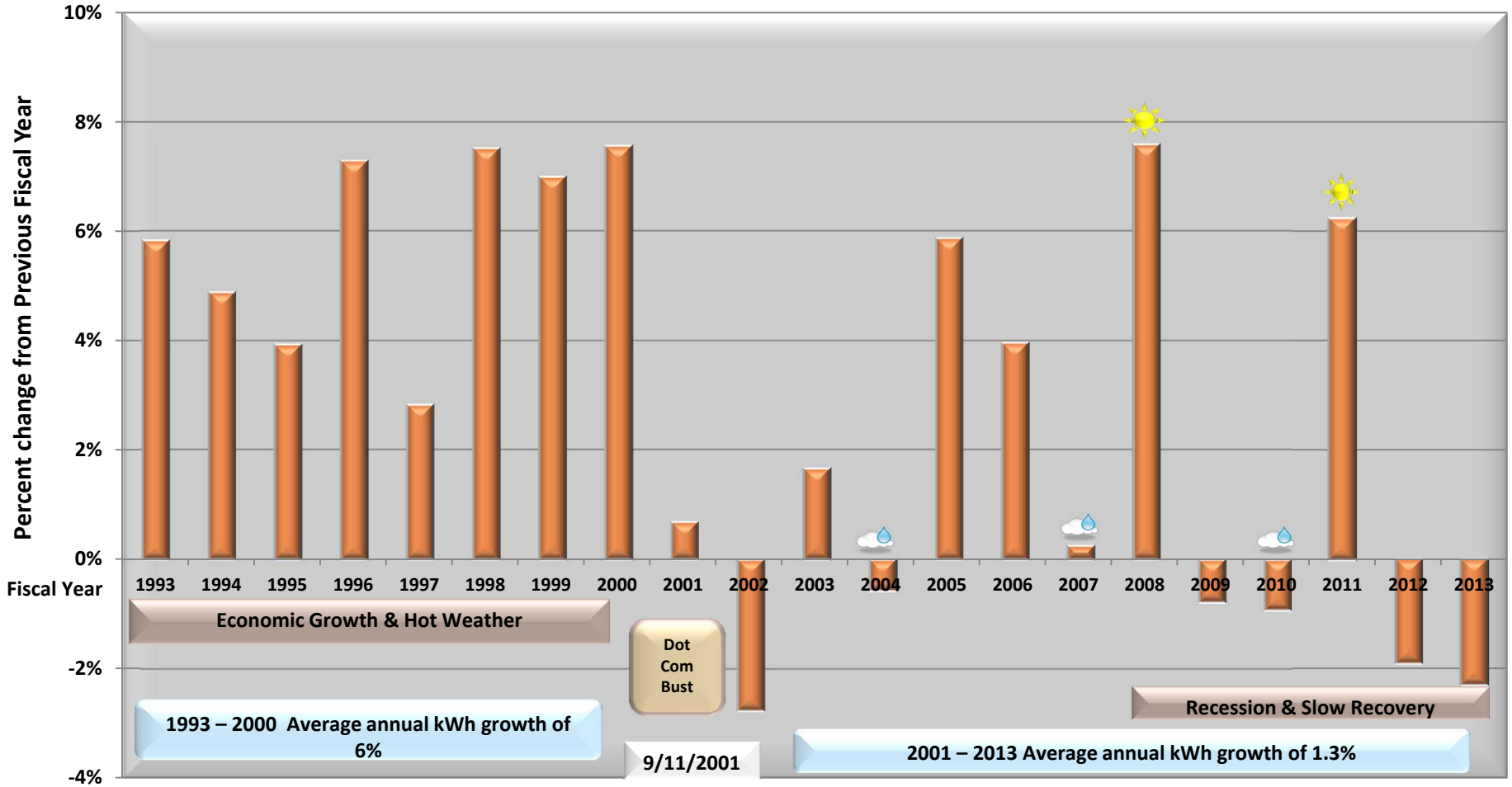
- Offsetting increase in business risk
- Issuing debt in an orderly manner
- Leading to higher bond ratings and lower cost of debt
- Reducing the leverage effect on the capital structure and make earnings more predictable
- Providing a cushion if financial situations change

Use of Cash Reserves

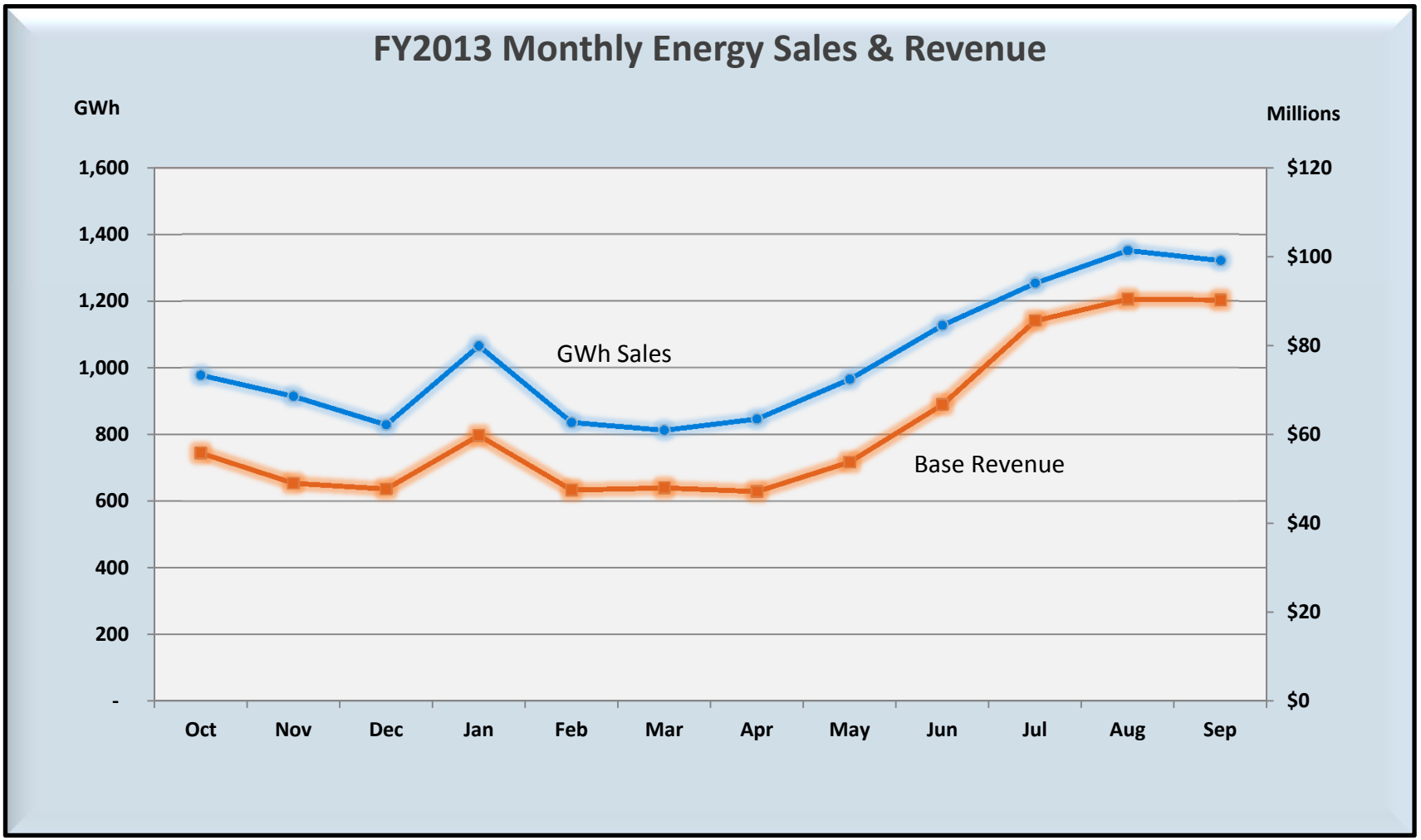
1. Provide partial funding for large planned projects
2. Provide funding for projects that do not qualify for debt funding
3. Provide funding for unplanned events

Retail KWh Sales History

% Change Year to Year



Seasonality of KWh and Base Revenues



Business Risks are Increasing

- **Rating agencies are focused on Reserves and Days Cash on Hand as a mitigating factor for increased risk**
  - Utilities owning generation have a higher risk profile
  - 70% of AE's cost is generation related

Examples of Unplanned Events:

- fuel price volatility, counterparty risk
- major generation disruptions
- water curtailment
- extensive infrastructure improvements
- technology improvements
- significant environmental legislation that increase costs but not output
- expenditures in response to natural disasters and weather events
- replacement power
- market price volatility and ERCOT market caps
- financial crisis similar to 2008

Reserve Planning Criteria

- **Long-term Planned Uses of Reserves:**
  - Rate stabilization
  - Non-nuclear decommissioning
  - Input from generation plan outcome
  - Maintain 50/50 debt Equity ratio

- **Unplanned Uses of Reserves – Current Threats:**
  - Generation outages
  - Storm damage
  - Market price spikes and caps
  - Regulatory costs

Next Steps

For AE, reserves provide flexibility and mitigate risk.

For the customer, reserves provide rate stabilization.

- **Rebuild reserves through cost savings, weather events and growth**
- **Plan and prioritize use of reserves**
- **Balance ratios with adequate reserves to maintain Credit Rating**

QUESTIONS?